

City of Detroit

CITY COUNCIL

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TO: Councilmembers

FROM: Irvin Corley, Jr., Director *ICJ*

DATE: February 24, 2010

RE: The Research and Analysis Division's Report on the City of Detroit's Option to Apply as a Michigan Lottery Retailer

RAD produced a report dated February 9, 2010, which analyzed whether the City of Detroit could apply as a Michigan Lottery Retailer. RAD opined that the City could apply to be a retailer and reported that the Detroit Metropolitan Wayne County Airport Authority has applied and received permission to be a retailer.

RAD was able to find some baseline information about the revenues that lottery retailers receive as commission for conducting lottery sales. Wayne County accounts for \$618 million or 30 % of the state's annual lottery income of \$2 billion. Retailers of lottery tickets receive a 6% commission on lottery sales, independent of bonus commissions if prize tickets are sold at their business. In 2004, the state paid an average of \$13,651 in commissions to its 10,651 retailers for a total of \$145.4 million statewide.

Based on the above figures, Wayne County lotto retailers collected \$37 million in sales commissions. If the average annual commission is \$13,651, then there are roughly 2,600 existing retailers selling lottery tickets in Wayne County.

If the lottery commissioner were to decide to grant the city a license as a sales agent, it is very unclear how much the city would earn. It is unclear if the market is saturated, and the city as an additional agent would lower the average for all existing retailers or if there is additional capacity for new dollars to be spent.

Based on the attached report, it does indicate that the Lotto Commission asked the Airport Authority to be a lottery retailer, specifically for keno machines and the Authority turned it down at first. However due to declining revenues at the Airport, the Airport chose to enter into an agreement. It appears that there were no lottery sales at the airport prior to this contract in late 2009.



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Detroit Airport Officials and Michigan Lottery Negotiates Regarding the Lottery's Offerings

The Detroit Metropolitan Airport is negotiating with the Michigan Lottery to bring gambling machines and other lottery products to the airport as it looks to improve revenues amid declining flight and tourist decline. Both the Wayne County Airport Authority and the Michigan Lottery confirmed on September 10th, 2009 that the negotiations are under way.

Andi Brancato, the public relation direction for the state lottery said that the lottery and the Detroit Airport are finalizing arrangement and they hope to sell tickets in the next few months. She said that what will be offered are not yet determined but any games that the lottery currently offers is possible. The airport's director of public affairs, Michael Conway, said that where the gaming machines are in terminal stores and restaurants has not been decided.

Conway said that the lottery previously approach the Detroit Metropolitan Airport about placing its keno game in some of the restaurants in the airport but that was rejected by airport officials. Now, facing with declining revenues, discussions are back on. Keno, instant ticket games and pull tabs are the possible and the airport (under a licensing agreement with the Michigan Lottery) would get a portion of the revenue from the tickets sold and from prizes.

The authority board, during a meeting on September 8th, 2009, tabled a decision on a proposal that would offer airline landing costs rebates on any new non-stop route from the city of Detroit for at least one year. The initiative, which also features additional credits for local marketing of a new flight route, was made to produce more passenger traffic and the associated parking and concession earnings.

The proposal was set aside from additional discussion. The authority also plans to cut its overall spending to minimize losses: The airport's 2010 budget, which starts on October 1st, 2009, will be scaled down by nearly \$9 million to \$264.5 million.

Conway said that includes the elimination of one hundred nine positions, some of which will not be filled that are open now, voluntary departures like retirements and layoffs. Metro has seen traveler traffic drop about 8% compared to last year and the Airport Westin Hotel is on track to lose \$4.5 million this year. Recent airline industry study estimates that Metro will see an average of twenty seven fewer flights daily in the 4th quarter and the authority had been forecasting a \$6 million deficit.

The authority is also trying to sell naming rights to the airport and recently signed a 7-year, \$9.8 million advertisement deal with Pepsi distributor PBG Michigan LLC that makes Pepsi the official beverage of the Detroit Metropolitan Airport.

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John Sullivan



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